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Apple's not-so-grand entrance

How will the company's shift to Intel affect the industry?

by Cameron Crotty -- *Electronic Business*, 8/1/2005



Apple Computer's recent embrace of **Intel** processors for its Macintosh line of personal computers set the mainstream press abuzz. Only hours after the announcement at the company's Worldwide Developer Conference in San Francisco in June 2005, ordinarily buttoned-down financial columnists and cynical tech pundits were speculating about everything from an impending merger between Apple and Intel to a renewal of Apple's suicidal flirtation with the Macintosh clone market. But Apple's shift isn't likely to affect the electronics

industry in proportion to the amount of news coverage it generated. Here's who Apple's move will affect, and how much—or how little.

Apple's departure isn't going to leave deep holes in the bottom lines of either of the company's PowerPC chip suppliers, **IBM** and **Freescale Semiconductor**. Linley Gwennap, president and principal analyst of research firm The Linley Group, estimates that sales of PowerPC microprocessors to Apple in 2004 totaled roughly \$150 million for Freescale and \$250 million for IBM. Certainly, the revenue will be missed, but to put those numbers in perspective, Freescale recorded \$5.7 billion in revenue in 2004 and IBM's Systems and Technology Group—which includes servers and microelectronics—recorded \$17.9 billion.











According to industry observers, keeping Apple's business had become more trouble than it was worth for IBM and Freescale. When IBM, **Motorola** and Apple first started working together on the PowerPC architecture, the same stand-alone chips that Apple purchased could be used for networking and telecom applications with little or no modification. But over the years, IBM and Motorola (pre-Freescale) began building PowerPC product lines to meet specific needs. "IBM and Freescale are building processors for routers, for

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


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video games, for servers, for anything but PCs," says Gwennap.

Eventually, the two chip suppliers were building general-purpose PowerPC processors just for Apple, and although development costs kept rising, Apple's volumes didn't. When Apple pressed for chips that it needed in order to stay competitive—like a cooler, notebook-friendly G5—IBM and Freescale balked. "They said to Apple, 'Look, we're essentially doing one-off development work for you,'" says Gwennap. "You're going to need to foot more of the bill." Gwennap believes that after the fuss dies down, IBM and Freescale will emerge essentially unscathed. "IBM will be able to focus on video game manufacturers and its other large ASIC customers," says Gwennap, whereas Freescale will continue to concentrate on the embedded-chip market.

By shifting the Macintosh line to Intel processors, Apple is engaging a supplier that more closely shares its performance goals. Nevertheless, "this is not a monster deal for Intel," says iSuppli senior analyst Matthew Wilkins, citing financial industry estimates that Apple's use of Intel processors might add only as much as 2 percent annually to Intel's total sales.

Industry observers expect that Apple's move to a more widely used PC architecture will cause some shuffling among Taiwanese contract manufacturing firms, mostly because Apple will have more options available. According to Y. D. Gordon, manager of THT Business Research, Apple will purchase \$5.4 billion worth of IT equipment from Taiwanese manufacturers in 2005 and an estimated \$7 billion in 2006, making it the third-largest purchaser of OEM equipment from Taiwan, trailing only **Dell** and **HP**. The changes won't be earth-shattering, but two companies—**Asustek**, Apple's current notebook manufacturer, and **Hon Hai**, one of the fastest-growing CMs in Asia—may see their fortunes change the most dramatically.

Instead of relying on Asustek as its main notebook manufacturer, Apple will now be able to contract three main notebook manufacturers and keep one on standby. "Every so often, Apple will dump whichever notebook manufacturer isn't satisfying the company on pricing or flexibility and replace it with one of the others," says Gordon.

Gordon also expects Hon Hai to benefit from any shakeout Apple's move engenders. "Hon Hai has been acquiring other companies and is positioned to offer a broader range of products than its competitors." Gordon believes that these moves will give Hon Hai a significant advantage, by positioning the company to supply Apple with expertise in multiple areas—potentially serving as a one-stop shop for a firm that appears to be working to expand its portfolio of consumer electronics.

Apple's switch to Intel processors marks the end of an era. But despite the extensive attention paid by the pundits and the mainstream press, the company this will most affect is Apple itself. For nearly everyone else in the electronics industry, it will be business as usual.

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